

**MINUTES  
BOARD OF TRUSTEES OF THE  
PUBLIC EMPLOYEES' RETIREMENT FUND  
143 West Market Street, Suite 500  
Indianapolis, IN 46204  
May 9, 2003**

**EXECUTIVE SESSION**

Trustees Present

Jonathan Birge, Chair  
Richard Doermer, Vice Chair  
Garland E. Ferrell  
Connie R. Thurman  
Nancy Turner\*

Others Present

Forest Bowman, Attorney-at-Law  
Craig Hartzer, Executive Director  
Bruce Kimery, Chief Benefits Officer

The Board met in Executive Session to discuss matters under IC 5-14-1.5-6.1(b)(6) and IC 5-14-1.5-6.1(b)(2)(B). No other matters were discussed by the Board in the Executive Session.

**REGULAR SESSION**

Trustees Present

Jonathan Birge, Chair  
Richard Doermer, Vice Chair  
Garland E. Ferrell  
Connie Thurman  
Nancy Turner\*  
\* Dial-in

Others Present

David Arpey, Credit Suisse First Bank  
Mary Beth Braitman, Ice Miller  
Stephanie Braming, Mercer Investment Consulting  
David Johnson, Baker & Daniels  
Tim Juergensen, JCG, Inc.  
State Representative David Orentlicher  
Curt Smith, Strategic Investment Solutions  
Doug Todd, McCready & Keene, Inc.  
Scarlett Ungurean, Mercer Investment Consulting  
Bernard Yancovich, Credit Suisse First Bank

### PERF Staff

Craig Hartzer, PERF Executive Director  
Caroline Bradley, PERF Internal Auditor  
Diann Clift, PERF MIS Director  
Patricia Gerrick, PERF Chief Investment Officer  
Ed Gohmann, PERF Legal Counsel  
Leisa Julian, PERF Chief Financial Officer  
Bruce Kimery, PERF Chief Benefits Officer  
Tim Legesse, PERF Investments  
Lynda Duncan, Minute Writer

### ITEMS MAILED TO THE BOARD PRIOR TO MEETING.

- A. Agenda of May 9, 2003
- B. Minutes:
  - ❑ April 11, 2003 Board of Trustees Meeting
- C. Summary of PERF-Related Legislation
- D. Summary of Pick-up of Voluntary Contributions
- E. Minutes:
  - ❑ March 14, 2003 Audit and Budget Committee Meeting
- F. Fiscal Year-to-Date 2003 Financial Reports Management Discussion and Analysis
- G. Fiscal Year 2004 Administrative Budget

### I. APPROVAL OF MINUTES.

**MOTION** duly made and carried to approve the Minutes of the April 11, 2003 Board of Trustees Meeting.

*Proposed by:* Richard Doermer  
*Seconded by:* Nancy Turner  
*Votes:* 5 for, 0 against, 0 abstentions.

### II. OLD BUSINESS.

- A. Legislative Update. Mr. Gohmann provided a status report for legislation concerning public pensions that had successfully passed through the current legislative session.
- B. Operations Update. Mr. Kimery provided an overview of the operational side of the agency.

#### ➤ SIRIS System.

- ❑ PERF Staff is testing a number of proposed solutions to PIRs. Mr. Kimery noted that the contractor had been responsive in getting these items available for testing by staff.
- ❑ A Request for Proposal (RFP) had been issued jointly by PERF and TRF relating to work on enhancements to SIRIS. Four responses have been received and are being evaluated.

- Staffing. All temporary positions have been converted to full-time positions. Sally Burton had joined PERF as Procurement Officer.
- PERF Disaster and Evacuation Plan. The plan has been developed and will be tested before the end of May 2003.
- Disaster Recovery Plan. Staff is in the process of developing effective evacuation and emergency plans and is identifying off-site locations from where PERF could operate in a crisis situation.
- Employer Advisory Group (EAG). The EAG had met on April 29, 2003. A report on the meeting had been given in the Benefits Administration Committee Meeting.
- Building Consolidation. The PERF Building Committee has developed a chart timeline to monitor progress. The plan involves moving divisions from Building 125 and consolidating everyone in Building 143. Plans include constructing a Customer Service Center on the ground floor of Building 143. This work is scheduled to be completed and the Center to be operational by the end of October 2003.
- Building and System Security. A Request for Proposal has been issued for the enhancement of physical security and computer system security measures. Three responses have been received and are being assessed.

### III. NEW BUSINESS.

- A. New Units and Enlargements. A list of units wishing to join PERF and units wishing to expand their PERF coverage was provided for the Board approval. It was noted that requests from units to join PERF or to expand their membership were accepted subject to compliance with pertinent statutes.

**MOTION** duly made and carried to approve the list of New Units and Enlargements as recommended.

*Proposed by:*                      *Garland Ferrell*  
*Seconded by:*                  *Richard Doerner.*  
*Votes:*                                *5 for, 0 against, 0 abstentions.*

- B. Pick-up of Voluntary Contributions. Ms. Braitman noted that HEA 1283 had been enacted in 2000 to permit members of both PERF and TRF to make additional contributions to their Annuity Savings Accounts (ASAs). Additional voluntary contributions are limited to 10% of their salary. Currently, additional contributions are made with only after-tax dollars. In 2000, both PERF and TRF filed a request for a private letter ruling from the Internal Revenue Service (IRS) to permit additional contributions to be made on a pre-tax basis through "pick-up". After certain revisions (required by the IRS) to the terms of the original draft pick-up request, the IRS finalized its rulings for both PERF and TRF in April 2003. These rulings will permit members to make additional voluntary contributions on a pre-tax basis according to

the pick-up mechanism. PERF members who (i) have attained five years of creditable service as of the end of a plan year; and (ii) work for an employer that has adopted a resolution to participate in the pick-up of additional contributions, may elect to make part or all of their voluntary contributions through the pre-tax pick-up. The election window is available to that member for two year, beginning on September 1 following the plan year when the member completes five years of service. An initial window from September 1, 2003 to August 31, 2005 will be open for any members who have at least five years of service by June 30, 2003. Members must complete an irrevocable payroll reduction covering all or part of the additional voluntary contributions. Picked-up contributions covered by the irrevocable payroll deduction will be contributed to the ASA on a pre-tax basis. In her remarks, Ms. Braitman noted that this could be a good way for members to boost their ultimate retirement and security without mandating this election as a requirement for all members.

It is anticipated that the final rule text will be submitted to the PERF Board of Trustees in August or September, following the required hearing notices and publication of the proposed rule.

**MOTION** duly made and carried to approve commencement of the rule-making process to adopt the rule that was submitted and approved by the IRS.

*Proposed by:* Connie Thurman  
*Seconded by:* Richard Doerner  
*Votes:* 5 for, 0 against, 0 abstentions.

It was noted that this option was structured so that those dollars will go into the existing Annuity Savings Account (ASA) where it will be subject to the same distribution and investment options as the normal ASA. It was anticipated that there would be costs in educating the members and giving them notice of when they reach the five-year mark, but this should not produce any significant system expenses. Ms. Turner considered that the irrevocable nature of the election might be a cause of concern to some members. Ms. Braitman noted that states already using similar options had little problems with the irrevocable nature of the election.

**MOTION** duly made and carried to approve the administration of a pre-tax voluntary contribution program in the form submitted and approved by the IRS while the administrative regulation is pending.

*Proposed by:* Connie Thurman  
*Seconded by:* Garland Ferrell  
*Votes:* 5 for, 0 against, 0 abstentions.

### C. Committee Reports.

1. Benefits Administration Committee Meeting. All Board members had been present at the Benefits Administration Committee meeting held that morning, and it was noted that matters arising from those meetings would be recorded in the respective Minutes.

2. Audit and Budget Committee Meeting. Mr. Ferrell, Committee Chair, noted that the Committee had met on May 1. Matters arising from that meeting are as follows:

a. Audit Matters.

- The Audit Staff candidate had been interviewed and required PERF security checks had been carried out.

- b. Budget Matters. Mr. Ferrell noted that the FY04 budget was approximately \$4.5 million more than the current FY03 budget. The cost of the administrative budget had been reduced.

- The overall increase comparing FY03 to FY04 was attributed to an increase in investment fees as a result of new investment strategies, resulting in higher fees to managers.
- In the operating budget, an additional \$400,000 had been included. This represented the cost of building operating expenses that had not been included in previous operating budgets. This prior decision to exclude this amount for the operating budget had been based on the rationale that a good portion of the two buildings were leased to outside entities and income generated from these leases was sufficient to cover the total operating costs of the building.
- A total of \$600,000 had been allotted for occupancy costs. This is the estimated cost involved in accommodating the entire staff within Building 143 and renovation work on floors 1, 3, 6 and a portion of floor 8 in Building 143. Options for using Building 125, once vacated, are being explored.
- It was noted that certain contractual items that had overlapped previous years had been adjusted within the FY04 budget to be assigned to a particular fiscal year.

**MOTION** duly made and carried to approve the PERF Budget for Fiscal Year 2004.

*Proposed by:* Connie Thurman

*Seconded by:* Nancy Turner.

*Votes:* Five for, 0 against, 0 abstentions

3. Investments Committee Meeting. Mr. Doermer recognized Mr. David Johnson, who introduced representatives of Credit Suisse First Boston (CSFB) to the Investment Committee. A copy of Mr. Johnson's comments are attached to the Minutes as Exhibit A.

- (a) CSFB Presentation. Mike Arpey and Bernard Yancovich of CSFB provided an overview of the work of Credit Suisse First Boston within the context of the Indiana Future Fund, LLC. CSFB's Customized Fund

Investment Group (CFIG) had been selected to be the general partner of the Indiana Future Fund. Their presentation included details of CFIG's history and experience. In their presentation, the following points were highlighted:

- CFIG believes that the Indiana Future Fund represents an opportunity to create top quartile returns.
- CFIG's Private Equity Division had generated superior returns through its expertise in life sciences. The resources of CSFB's investment banking and research franchises were instrumental to this success.
- In their remarks, they stressed that this was a return-oriented fund and that it was not designed for economic development.
- CSFB had conducted a comprehensive study of potential for life sciences investments. Its approach to finding suitable candidates for this venture will focus on three potential groups: Local groups, national groups, and venture capital groups that tend to work in syndicates. The intention will be to meet with national and local groups on a regular basis to exchange ideas and information on deal-flows, etc.
- The CSFB group has invested in 50 life science funds. The group performs due diligence in a very disciplined fashion. They have experience in terms of managing institutional assets with an extensive history of investing in top quartile managers.
- They noted that a great deal of education would be required. They would need to identify angel networks and meet with corporations and technical transfer offices. As part of this process, a website had been developed that aimed to match entrepreneurs with venture capitalists. Another website was being generated for investors and General Partners.
- Investors in the Fund, such as PERF, would have a seat on an Advisory Board that would meet monthly.
- CSFB is committing \$2 million of its own funds to the IFF.

(b) Discussion.

- Mr. Doermer noted that as fiduciaries, it was important for the Trustees to confine their interest to the investment implications and that this consideration should be divorced from any other consideration. He noted that the Investment Committee had received extensive material within the last few days relating to a possible investment in IFF I, but had not yet had full opportunity to review the material.

- Information was requested on the mechanics for evaluating the investments within the IFF structure. It was noted that valuation committees would periodically assign values to investments in the fund. The driving factor of the valuation process would depend on the partnership agreement, and this would depend on partnership agreements being set up correctly. Investors would have the right and obligation to approve the evaluations given and would have a seat on every group's advisory board in which they invest. Monthly meetings of the IFF's advisory committee would be held and information published on the web-site. Valuations are done on a quarterly basis and are audited, and an annual report issued.
- Mr. Birge noted that locating other funds particularly interested in the life sciences industry would be challenging. He was advised that this would be redressed by setting up a system of "side-cars" of larger funds that would be focused on this industry. There would be a mixture of national and local groups. It was noted that companies located in Indiana would have the advantage of having on-site contacts.
- Mr. Doermer asked if there were any existing health science venture capital firms in Indiana. It was noted that there were a few and the PERF staff and IFF representatives were meeting with them and assessing their investment potential.
- Risks Factors. Mr. Ferrell inquired about the current legal actions pending against CSFB. He was advised that CSFB had been subject to regulatory scrutiny with regard to investment banking, and research and analysis. The whole industry had recently settled disputes with the SEC and Federal Government. The Head of Technology in the Investment Banking department of Credit Suisse was still under investigation for actions involved during the "technology bubble" but that these actions were being pursued on an individual basis.
- Mr. Birge noted the "no fault divorce" term that gave investors the option to opt out of the investment at any time and for any reason. He asked if CSFB had ever been involved in similar arrangements in other funds. Mr. Johnson noted that this opt out clause had provoked considerable discussion in the planning phases. Some participants believed that this would be onerous to the IFF manager. Other members insisted that it had to be a condition for the manager. It had been decided the investment proposition that was driven primarily by the fiduciaries had to be satisfactory first and foremost. The opt out option represented greater protection for investors than standard agreements.
- Mr. Doermer asked for the guidelines that would be followed in selecting the particular funds. He was advised that this was a life science focused vehicle and they would be hiring managers with expertise in that field.

- Mr. Johnson noted that the investors in this fund consist of large institutional investors. Consensus exists that if this collaboration of institutional investors is successful in this asset class, there is nothing to prevent this collaboration from coming together to look at other kinds of opportunities in other areas.
  - Mr. Birge noted that overlaps existed in defining areas of investments within the life sciences category. He was advised that life sciences would be assessed according to clusters combining related companies and focus.
  - Mr. Birge stressed the importance of focusing on this decision from an investment standpoint with regard to fiduciary duty. Any decision should exclusively focus on benefit to PERF and to members of the Fund.
  - CGIF would be compensated through carried interest (performance fee). They would receive the carried interest only after they have returned to investors all of the management fees and an 8% preferred return. The main objective of the IFF is to generate a return.
- (c). It was proposed and agreed, that in order to allow sufficient time for thorough deliberation of materials provided, the Investment Committee and the Board of Trustees would meet on May 30, 2003 at 2 p.m. Mr. Doermer asked for a copy of the opening remarks made by David Johnson to be added as an exhibit to the Minutes. Mr. Johnson noted that PERF and the consultants had engaged in intensive and extensive due diligence. The main concern should be that there would be no inference that there was some problem with the due diligence that was causing the Board to delay its decision concerning an investment. Mr. Doermer noted that the delay in a decision had emanated exclusively from a desire to be prudent and to have an opportunity to make a proper examination of materials provided.

IV. REPORT OF EXECUTIVE DIRECTOR. Mr. Hartzer provided a summary of developments and initiatives underway at PERF:

- Change Management. Mr. Tim Juergensen, Juergensen Consulting Group, Inc., had started work on a change management/strategic planning process. He had already conducted interviews with various strata of PERF staff. Mr. Juergensen noted that the immediate goal of the project was to find ways to improve PERF. A Steering Group was being formed that would be accountable for driving the overall planning and execution of the plan. Ms. Thurman had agreed to be one of the members of the Steering Group.
- SIRIS. Preliminary meetings have taken place to discuss how to operate, maintain improve SIRIS once the relationship with the present contractor ends. Meetings and discussions are on going with TRF. Options for the future include developing an independent IT Staff, relying on external contractors, or developing a hybrid solution. One possibility is to set up an independent company to perform PERF/TRF IT work.



- Mr. Hartzer thanked the Chair and the members of the Audit and Budget Committee members for their work on the Budget FY04 preparation

V. DATE OF NEXT MEETING. The next regularly scheduled meeting will be held on June 13, 2003.

VI. ADJOURNMENT. There being no other business, the meeting was adjourned.

<i>Proposed by:</i>	<i>Garland Ferrell</i>
<i>Seconded by:</i>	<i>Nancy Turner</i>
<i>Votes:</i>	<i>Five in favor, 0 against, 0 abstentions</i>